



QuadraFNX

Quadra FNX Mining Ltd.

Consolidated Financial Statements

June 30, 2010

(Expressed in thousands of U.S. dollars, except where indicated)

(Unaudited)

Quadra FNX Mining Ltd.

CONSOLIDATED BALANCE SHEETS

(US Dollars in Thousands)
(Unaudited)

		June 30,	December 31,
		2010	2009
ASSETS			
Current			
Cash and cash equivalents	Note 5	324,888	133,208
Restricted cash		7,253	4,816
Receivables		100,683	20,816
Inventory	Note 6	224,926	186,767
Derivative assets	Note 11	1,296	1,333
Other current assets	Note 7	51,201	33,246
Total Current Assets		710,247	380,186
Mineral properties, plant and equipment	Note 8	1,868,824	780,874
Investment in Gold Wheaton	Note 9	123,038	-
Environmental trust and bond		70,791	59,738
Derivative assets	Note 11	46	234
Other non-current assets		9,365	4,595
Future income tax assets		17,804	21,398
Total Assets		2,800,115	1,247,025
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		120,263	70,998
Derivative liabilities	Note 11	8,206	32,764
Project debt facility	Note 13	45,612	34,166
Current portion of deferred revenue	Note 14	15,735	-
Other current liabilities	Note 12	6,322	19,126
Future income tax liabilities		7,315	5,841
Total Current Liabilities		203,453	162,895
Deferred revenue	Note 14	208,907	-
Asset retirement obligations		53,733	50,289
Derivative liabilities	Note 11	27,399	25,623
Other non-current liabilities		2,325	2,858
Future income tax liabilities	Note 4	231,999	-
Total Liabilities		727,816	241,665
Shareholders' Equity			
Share capital	Note 15(a)	1,671,838	715,261
Stock options and warrants	Note 15(b),(c)	72,046	41,711
Accumulated other comprehensive income		12,546	9,920
Retained earnings		315,869	238,468
Total Shareholders' Equity		2,072,299	1,005,360
Total Liabilities and Shareholders' Equity		2,800,115	1,247,025
Commitments (Note 20), Contingencies (Note 21)			

The accompanying notes are an integral part of these financial statements.

Quadra FNX Mining Ltd.

CONSOLIDATED STATEMENTS OF EARNINGS

(US Dollars in Thousands except per share data)

(Unaudited)

		Three Months ended June 30, 2010	Three Months ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
Revenues	Note 16(a)	169,144	100,053	366,636	211,784
Cost of sales		113,585	63,290	208,592	125,425
Carlota start-up inventory recovery	Note 6	-	-	-	(5,305)
Amortization, depletion and depreciation		17,421	6,962	28,847	11,322
Accretion of asset retirement obligations		755	993	1,972	1,962
Royalties and mineral taxes		5,795	4,682	13,863	8,010
		<u>137,556</u>	<u>75,927</u>	<u>253,274</u>	<u>141,414</u>
Operating income		31,588	24,126	113,362	70,370
General and administrative		6,830	4,098	13,434	7,591
Stock-based compensation	Note 15 (b)	1,831	2,075	3,393	3,595
(Gain) loss on derivatives	Note 11	(3,596)	17,170	3,482	25,979
Transaction costs for FNX merger	Note 4	5,261	-	6,996	-
Foreign exchange gain		(1,989)	(334)	(1,870)	(673)
Net interest and other expense (income)	Note 17	(2,091)	8,632	(6,391)	8,570
Earnings (loss) before income taxes and other items		<u>25,342</u>	<u>(7,515)</u>	<u>94,318</u>	<u>25,308</u>
Income tax expense (recovery)	Note 10	4,866	(187)	18,195	5,981
Share of earnings of equity investee	Note 9	(1,278)	-	(1,278)	-
Earnings (loss) for the period		<u>21,754</u>	<u>(7,328)</u>	<u>77,401</u>	<u>19,327</u>
Retained earnings - beginning of period		<u>294,115</u>	<u>184,641</u>	<u>238,468</u>	<u>157,986</u>
Retained earnings - end of period		<u>315,869</u>	<u>177,313</u>	<u>315,869</u>	<u>177,313</u>
Earnings per share					
Basic earnings per share		\$ 0.16	\$ (0.08)	\$ 0.65	\$ 0.24
Diluted earnings per share		\$ 0.15	\$ (0.08)	\$ 0.64	\$ 0.24
Weighted average shares outstanding - basic		139,805	94,521	119,781	80,339
Weighted average shares outstanding - diluted		141,553	94,521	121,740	80,412

The accompanying notes are an integral part of these financial statements.

Quadra FNX Mining Ltd.

**CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

(US Dollars in Thousands)

(Unaudited)

	Three Months ended June 30, 2010	Three Months ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009	
Net earnings (loss)	21,754	(7,328)	77,401	19,327	
Other comprehensive income					
Unrealized gain (loss)					
on marketable securities, net of tax	Note 7	(3,774)	9,980	2,626	22,415
Realized loss on marketable securities	Note 17	-	7,234	-	7,234
Total comprehensive income	17,980	9,886	80,027	48,976	

The accompanying notes are an integral part of these financial statements.

Quadra FNX Mining Ltd.

**CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY**

(US Dollars in Thousands)

(Unaudited)

	Six months ended June 30, 2010	Year ended December 31, 2009
Share capital		
Balance - beginning of year	715,261	578,474
Shares issued for cash, net of issue costs	-	67,842
Shares issued for FNX merger, net of issue costs	952,071	
Shares issued for Centenario acquisition, net of issue costs	-	64,451
Shares issued, other	-	181
Stock options exercised	4,506	4,313
Balance - end of period	1,671,838	715,261
Stock options and warrants		
Balance - beginning of year	41,711	35,253
Stock-based compensation	Note 15 (b) 3,332	7,167
Stock options issued for FNX merger	Note 4 6,664	-
Warrants issued for FNX merger	Note 4 21,339	-
Stock options issued for Centenario acquisition	-	314
Transfer to share capital for stock options exercised	(1,000)	(1,023)
Balance - end of period	72,046	41,711
Accumulated other comprehensive income (loss)		
Balance - beginning of year	9,920	(40,181)
Reversal of realized gain on marketable securities	-	(818)
Unrealized gain on marketable securities, net of tax	2,626	50,919
Balance - end of period	12,546	9,920
Retained earnings		
Balance - beginning of period	238,468	157,986
Earnings for the period	77,401	80,482
Balance - end of period	315,869	238,468
Total shareholders' equity	2,072,299	1,005,360

The accompanying notes are an integral part of these financial statements.

Quadra FNX Mining Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in Thousands)
(Unaudited)

	Three Months ended June 30, 2010	Three Months ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
OPERATING ACTIVITIES				
Earnings (loss) for the period	21,754	(7,328)	77,401	19,327
Adjustment for items not involving cash from operating activities:				
Stock-based compensation	1,724	2,075	3,175	3,595
Amortization, depletion, depreciation and accretion	18,176	7,955	30,819	13,284
Carlota start-up inventory recovery	-	-	-	(5,305)
Unrealized gain on Gold Wheaton note receivable	(8,838)	-	(8,838)	-
(Gain) loss on derivatives	(3,596)	15,074	3,482	26,077
Future income tax expense (recovery)	4,433	(584)	4,758	725
Loss on marketable securities	5,961	7,234	341	7,234
Amortization of deferred revenue	(1,576)	-	(1,576)	-
Transaction costs incurred in FNX merger	5,261	-	6,996	-
Share of earnings of equity investee	(1,278)	-	(1,278)	-
Other	1,382	-	1,935	9
	<u>43,403</u>	<u>24,426</u>	<u>117,215</u>	<u>64,946</u>
Net changes in non-cash working capital	(17,261)	(23,838)	(33,415)	(51,033)
Cash provided from operating activities	26,142	588	83,800	13,913
INVESTING ACTIVITIES				
Additions to mineral properties, plant and equipment	(46,426)	(66,259)	(69,310)	(83,428)
Cash acquired on merger with FNX, net of transaction costs	199,698	-	197,963	-
Payments for settlement and purchase of derivatives	(9,088)	213	(23,449)	14,705
Decrease (increase) in environmental bond and trust	900	39	(4,980)	(4,251)
(Increase) decrease in other assets	(4,731)	20	(4,770)	57
Cash acquired from Centenario acquisition, net of transaction costs	-	9,049	-	9,049
Increase in loan to Centenario	-	(6,700)	-	(9,500)
Disposition of marketable securities	-	13,066	-	13,066
Cash provided from (used in) investing activities	140,353	(50,572)	95,454	(60,302)
FINANCING ACTIVITIES				
Proceeds from issue of common shares	2,097	68,448	3,343	68,448
(Decrease) increase in project debt facility, net	(79)	33,722	9,939	33,722
Proceeds from close out of Centenario derivatives	-	30,656	-	30,656
Repayment of Centenario project loan facility	-	(68,966)	-	(68,966)
Decrease in obligations under capital leases	(436)	(375)	(856)	(753)
Cash provided from financing activities	1,582	63,485	12,426	63,107
Net increase in cash and cash equivalents during the period	168,077	13,501	191,680	16,718
Cash and cash equivalents, beginning of period	156,811	111,014	133,208	107,797
Cash and cash equivalents, end of period	324,888	124,515	324,888	124,515

The accompanying notes are an integral part of these financial statements

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

1. NATURE OF OPERATIONS

Quadra FNX Mining Ltd. (formerly Quadra Mining Ltd.) ("Quadra FNX" or the "Company") was incorporated on May 15, 2002 under the British Columbia Company Act and is continued under the British Columbia Business Corporations Act. The Company is in the business of developing and operating mines, with a focus on base metals, particularly copper. In 2004, the Company acquired and restarted the Robinson mine, an open pit copper mine, with gold and molybdenum by-product credits, located in Nevada in the United States. The Company's Carlota mine was acquired as a development project in 2005 and construction of the mine was completed in late 2008. On April 8, 2009, the Company completed the acquisition of Centenario Copper Corporation ("Centenario") and its 100% owned Franke mine, a heap leach SX/EW copper operation in northern Chile. Quadra FNX completed the mine construction and commenced production at Franke during the fourth quarter of 2009. As a result of the merger with FNX Mining Company Inc. ("FNX") in the second quarter of 2010 (Note 4), the Company now owns the McCreedy West and Levack mines (together known as the "Levack Complex") and the Podolsky mine ("Podolsky mine") and the Morrison deposit, all located in Canada's Sudbury mining district. The Sudbury operations produce, develop and explore for copper, nickel, platinum, palladium and gold. The Company also owns an advanced exploration project in Chile ("Sierra Gorda") and the Malmbjerg molybdenum project in Greenland. In addition, the Company has a mining services business ("DMC Mining Services" or "DMC") that provides services in contract mining, mine shaft sinking, lateral mine development, mine construction and raise boring.

On May 20, 2010, Quadra Mining Ltd. completed a merger with FNX and the combined company was named Quadra FNX Mining Ltd.

2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). They do not include all the disclosures required by Canadian GAAP for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2009. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

Other than as described in Note 3, these financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's annual consolidated financial statements for the year ended December 31, 2009.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

3. CHANGE OF ACCOUNTING POLICY

On January 1, 2010, the Company early adopted CICA Handbook Section 1582, “*Business Combinations*” prospectively. This standard is harmonized with International Financial Reporting Standards (“IFRS”). The changes in this section include revisions to the definition of a business, revisions to the measurement basis used to measure a business combination and requirement to recognize acquisition related costs as expenses. This Section also provides additional disclosure requirements for business combinations. As a result of the adoption of this new standard, the acquisition of FNX has been accounted for using the new standard and all transaction costs related to the merger with FNX have been recorded in the statement of earnings for the six months ended June 30, 2010.

4. MERGER OF QUADRA AND FNX

On May 20, 2010, Quadra and FNX completed a merger of the two companies. The merger was structured as a court-approved plan of arrangement (the “Transaction”) under the Business Corporations Act (Ontario) pursuant to which Quadra has acquired all of the issued and outstanding common shares of FNX. Under the terms of the Transaction, former shareholders of FNX received 0.87 common shares of Quadra FNX and \$0.0001 in cash for each common share of FNX. Outstanding options and warrants to acquire FNX shares were converted into options and warrants to acquire Quadra FNX shares, adjusted in accordance with the same exchange ratio. A total of 88,880,670 common shares were issued to former FNX shareholders, and options and warrants to acquire 2,913,339 and 6,503,249 common shares, respectively, were issued on conversion of FNX options and warrants.

Upon completion of the merger, existing Quadra and FNX shareholders owned approximately 52% and 48% of the combined company, respectively, on a fully diluted basis. The acquisition is accounted for as a business combination, and Quadra was considered to be the acquirer for accounting purposes. The total purchase consideration for accounting purposes was \$980,236, based on the fair value of the issued common shares and other consideration as of May 20, 2010, the closing date of the merger. FNX’s assets and liabilities have been re-measured at their individual fair values estimated as of the closing date of the merger, and FNX’s financial results have been consolidated commencing from May 21, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

Management has completed a preliminary purchase price allocation that is subject to change as the valuation process is completed during 2010. The current allocation of the purchase price to the estimated fair value of the assets and liabilities of FNX is as follows:

Purchase price:

Common shares issued	952,233
Stock options and warrants issued	28,003
Total	980,236

Fair value of assets and liabilities acquired:

Cash and cash equivalents	204,959
Accounts receivable	92,055
Other current assets	15,958
Investment in Gold Wheaton	112,811
Mineral properties, plant and equipment	1,052,257
Reclamation deposits	6,073
Total assets acquired	1,484,113
Accounts payable and accruals	(44,671)
Deferred revenue	(226,218)
Asset retirement obligations	(1,986)
Future income tax liabilities	(231,002)
Total liabilities assumed	(503,877)
Net assets acquired	980,236

As Quadra FNX was obliged to replace the FNX stock options under the terms of the Transaction, it accounted for the exchange of instruments as a modification of share-based payment awards. The purchase consideration includes the portion of the fair value of the Quadra FNX replacement options that relates to services prior to the merger, and the remainder will be amortized as stock-based compensation expense in future periods. The fair value of the replacement options were valued using the Black Scholes option pricing model with the weighted average assumptions of expected volatility of 57%, risk free interest rate of 1.8% and expected life of 1.72 years.

From the closing date of the merger, FNX has contributed earnings of \$13,862. If this merger had taken place at the beginning of the year, the Company's pro forma consolidated revenue would have been \$434,610 and pro forma consolidated earnings would have been \$75,330 for the six month period ended June 30, 2010.

Quadra FNX Mining Ltd.

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(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

The Company has incurred total transaction costs of \$6,996 related to the merger with FNX, and these amounts have been expensed in the consolidated statement of earnings for the six month period ended June 30, 2010.

5. CASH AND CASH EQUIVALENTS

	June 30, 2010	December 31, 2009
Cash deposits, bankers acceptances and term deposits	223,758	49,665
Government money market investments	101,130	83,543
Total	324,888	133,208

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired.

6. INVENTORY

	June 30, 2010	December 31, 2009
Copper concentrate	41,113	38,936
Copper cathode	19,553	16,604
Carlota leach pad inventory	115,932	88,231
Franke leach pad inventory	21,832	16,778
Supplies	26,192	26,218
Sudbury ore inventory	304	-
Total	224,926	186,767

During the fourth quarter of 2008, the Company recorded an adjustment of \$15,429 to reduce the carrying value of Carlota's copper cathode and leach pad inventory to net realizable value. In the first quarter of 2009, the Company reversed \$5,305 of this adjustment due to the increased copper price.

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

7. OTHER CURRENT ASSETS

	June 30, 2010	December 31, 2009
Prepaid expenses	11,398	4,833
Prepaid royalties	-	1,655
Marketable securities	39,803	26,758
Total other current assets	51,201	33,246

Marketable securities consist of investments in common shares designated as 'available-for-sale', and warrants designated as 'held-for-trading'. As a result of the merger with FNX (Note 4), the Company acquired additional marketable securities consisting of common shares and warrants of mining companies with a fair value of \$10,451 as of May 20, 2010.

At June 30, 2010, the fair value of the common shares, based on their quoted market price, decreased to \$31,577 resulting in an unrealized loss of \$3,774 (net of tax recovery of \$819) for the three months ended June 30, 2010 and an unrealized gain of \$2,626 (net of tax of \$309) for the six months ended June 30, 2010 which has been recorded in shareholders' equity as a component of other comprehensive income. The fair value of the warrants, estimated using a Black-Scholes option pricing model, decreased to \$8,226, resulting in an unrealized loss of \$5,961 for the three months ended June 30, 2010 and \$341 for the six months ended June 30, 2010 which has been recorded in the statements of earnings (Note 17).

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

8. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	June 30, 2010	December 31, 2009
Mineral property acquisition and development costs	1,471,115	510,252
Stripping costs	17,836	17,836
Plant, buildings and equipment	561,444	396,161
Equipment under capital leases	10,959	11,354
Asset retirement cost	37,733	37,733
	<u>2,099,087</u>	<u>973,336</u>
Accumulated depreciation, depletion, amortization and impairment:		
Mineral property acquisition and development costs	(130,604)	(117,080)
Stripping costs	(6,279)	(3,852)
Plant, buildings and equipment	(69,666)	(49,832)
Equipment under capital leases	(7,997)	(7,562)
Asset retirement cost	(15,717)	(14,136)
	<u>(230,263)</u>	<u>(192,462)</u>
	<u>1,868,824</u>	<u>780,874</u>

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

Mineral properties, plant and equipment are allocated by project as follows:

June 30, 2010			
	Cost	Accumulated depreciation, depletion, amortization and impairment	Net book value
Robinson mine (Nevada, U.S.A.) (a)	218,165	(82,568)	135,597
Carlota copper mine (Arizona, U.S.A.) (b)	296,740	(29,641)	267,099
Franke mine (Chile) (c)	245,482	(17,580)	227,902
Levack Complex (Sudbury, Canada) (d)	72,123	(706)	71,417
Podolsky mine (Sudbury, Canada) (e)	96,977	(2,885)	94,092
Sierra Gorda project (Chile) (f)	175,944	(272)	175,672
Morrison deposit (Sudbury, Canada) (g)	631,373	-	631,373
Malmbjerg molybdenum project (Greenland)	102,150	(95,960)	6,190
Sudbury exploration properties (h)	243,773	-	243,773
DMC	14,359	(372)	13,987
Other	2,001	(279)	1,722
	2,099,087	(230,263)	1,868,824

December 31, 2009			
	Cost	Accumulated depreciation, depletion, amortization and impairment	Net book value
Robinson mine (Nevada, U.S.A.) (a)	198,551	(70,773)	127,778
Carlota copper mine (Arizona, U.S.A.) (b)	291,084	(19,699)	271,385
Franke mine (Chile) (c)	237,015	(5,611)	231,404
Sierra Gorda project (Chile) (d)	144,281	(215)	144,066
Malmbjerg molybdenum project (Greenland)	101,897	(95,922)	5,975
Other	508	(242)	266
	973,336	(192,462)	780,874

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

(a) Robinson mine

During the six months ended June 30, 2010, the Company incurred capital expenditures of \$13,157 (six months ended June 30, 2009 \$16,675) primarily related to the Ruth Pit development.

(b) Carlota mine

During the six months ended June 30, 2010, the Company incurred capital expenditures of \$11,906 (six months ended June 30, 2009: \$10,542) primarily related to the construction of the leach pad and a creek diversion.

(c) Franke mine

During the six months ended June 30, 2010, the Company incurred \$8,517 (six months ended June 30, 2009: \$17,053) primarily related to the construction of the acid tank and stockpile cover.

(d) Levack Complex

The Levack Complex is comprised of two adjacent mining operations, McCreedy West and Levack. Since the merger with FNX, the Company has incurred \$1,558 in capital expenditures on the Levack Complex.

(e) Podolsky mine

Since the merger with FNX, the Company incurred \$1,190 in capital expenditures related to development and drilling.

(f) Sierra Gorda

During the six months ended June 30, 2010, the Company incurred \$31,663 (six months ended June 30, 2009 - \$3,369) of exploration and development costs on the Sierra Gorda project which includes option payments for land totaling \$2,551 (six months ended June 30, 2009: \$2,041).

(g) Morrison deposit

The Morrison deposit, previously known as the LFD, is currently under development. Since the merger with FNX, the Company has incurred \$2,266 in capital expenditures related to development and recognized pre-production revenue credits of \$3,267 which were applied against the accumulated property costs.

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(h) Sudbury exploration properties

Since the merger with FNX, the Company has incurred \$2,015 in capital expenditures mostly related to the exploration of the Victoria property.

9. INVESTMENT IN GOLD WHEATON

As of June 30, 2010, the Company owns 25.2% of the outstanding common shares of Gold Wheaton Gold Corp. ("Gold Wheaton"). The Company accounts for this investment using the equity method, and recognized a gain of \$1,278 for its share of earnings in the three month period ended June 30, 2010. At June 30, 2010, the market value of these shares was \$83,520.

In addition, the Company holds a C\$50,000 note receivable that was issued to FNX by Gold Wheaton as part of the consideration for FNX's agreement to sell to Gold Wheaton 50% of the contained gold, platinum and palladium in ore mined and shipped from certain of FNX's existing mining operations (Note 14). The note receivable was renegotiated on December 8, 2008 to extend the due date to July 16, 2010, at which time the note may be repaid at either FNX's or Gold Wheaton's option through the issuance of that number of additional common shares of Gold Wheaton determined by dividing the principal amount by the lesser of: (a) C\$10.00, and (b) the greater of: (i) the 20-day volume weighted average price of the Gold Wheaton common shares ending June 30, 2010, and (ii) C\$2.00.

At June 30, 2010, the note receivable has been recorded at its fair value of \$47,478, based on the fair value of the Gold Wheaton common shares that would be required to settle the note receivable. The revaluation of the note receivable resulted in an unrealized gain of \$8,838 for the three month period ended June 30, 2010 which has been recorded in net interest and other expense (income) on the statement of earnings (Note 17).

The carrying value of the investment in Gold Wheaton is summarized as follows:

Equity investment, at May 20, 2010	74,282
Share of earnings of equity investee	1,278
Equity investment, at June 30, 2010	75,560
Fair value of note receivable at June 30, 2010	47,478
Total investment in Gold Wheaton	123,038

On July 16, 2010, the note receivable was converted into 20,464,126 shares of Gold Wheaton and as a result, the Company now holds 56,464,126 common shares, representing 34.5% of the outstanding shares of Gold Wheaton.

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
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(Unaudited)

10. INCOME TAXES

As a result of the merger with FNX on May 20, 2010, the Company has recorded a future income tax liability of \$231,002 which is based on the preliminary purchase price allocation (Note 4). For the six month period ended June 30, 2010, the Company recognized a current income tax expense of \$13,437 and a future income tax expense of \$4,758. The income tax expense for the six months ended June 30, 2010 has been recorded based on a forecasted effective income tax rate of 20% for 2010 (2009: 24%). For the six months ended June 30, 2009, the Company recognized a current income tax expense of \$5,256 and a future income tax expense of \$725. The forecast of the annual effective income tax rate includes assumptions regarding metal prices, mine production and costs.

11. DERIVATIVE INSTRUMENTS

Derivative instruments are carried on the balance sheets at fair value and are comprised as follows:

	June 30, 2010	December 31, 2009
Copper put options (a)	1,289	212
Franke copper collars and put options (b)	7	(24,611)
Fuel contracts (c)	(974)	1,122
Franke long-term supply contracts (d)	(34,631)	(33,777)
Interest rate cap	46	234
Total fair value of the derivative instruments	(34,263)	(56,820)

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Derivative instruments are presented in the balance sheets as follows:

	June 30, 2010	December 31, 2009
Derivative assets - current	1,296	1,333
Derivative assets - non-current	46	234
Derivative liabilities - current	(8,206)	(32,764)
Derivative liabilities - non-current	(27,399)	(25,623)
	<u>(34,263)</u>	<u>(56,820)</u>

The (gain) loss on derivatives is comprised as follows:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Copper put options (a)	469	7,593	3,747	17,680
Franke copper collars and put options (b)	(7,868)	10,040	(3,403)	10,040
Fuel contracts (c)	2,199	(3,327)	2,096	(4,605)
Franke long-term supply contracts (d)	1,539	2,937	855	2,937
Interest rate cap	65	(73)	187	(73)
(Gain) loss on derivatives	<u>(3,596)</u>	<u>17,170</u>	<u>3,482</u>	<u>25,979</u>

(a) Copper Put Options

The Company has a floor price protection program for a portion of its anticipated copper sales through December 2010. During the first six months of 2010, the Company purchased additional copper put options for 84.6 million pounds of copper at an average strike price of \$2.41/lb. at a cost of \$4,823. A total of 86.4 million pounds of copper put options expired unexercised.

At June 30, 2010, the Company had 62.2 million pounds of copper puts outstanding with an average strike price of \$2.22/lb (December 31, 2009 – 64 million pounds). The expiry dates of these put options are between July and December 2010.

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(b) Franke copper collars and put options

Under the terms of the Franke project debt facility (Note 13), the Company was required to enter into a copper price protection program in order to establish a minimum floor price for a portion of anticipated copper sales from the Franke mine. During the six months ended June 30, 2010, the Company settled all of the remaining 19.8 million pounds of copper collar contracts with cash payments of \$18,626. There are no copper collar contracts outstanding at June 30, 2010. At June 30, 2010, the Company had 15.0 million pounds of copper puts outstanding (December 31, 2009: 34.8 million pounds of copper put and collar contracts) with an average strike price of \$1.79/lb. The expiry date of these put options are between July and December 2010.

(c) Fuel Contracts

The Company has entered into NYMEX heating oil futures contracts and collar contracts in order to manage the price risk associated with diesel fuel. During the six months ended June 30, 2010, the Company settled 5.5 million gallons of NYMEX heating oil contracts resulting in a cash payment of \$422 to the Company, which has been recorded in cost of sales on the statement of earnings. During the first six months of 2010, the Company entered into contracts for a total of 5.4 million gallons of NYMEX heating oil futures at no cost.

At June 30, 2010, the Company had 10.8 million gallons of NYMEX heating oil futures contracts outstanding with an average strike price of \$2.22/gallon (December 31, 2009 – 10.9 million gallons). The expiry dates of these NYMEX heating oil futures contracts are between July 2010 and June 2011.

(d) Franke long-term supply contracts

On the acquisition of Centenario in 2009, the Company assumed long-term supply contracts for sulphuric acid and water. The contracted prices for acid and water are subject to adjustment based on the prevailing copper prices. The acid contract has a base price of \$27.00/tonne and requires an additional \$2.50/tonne to be paid for each \$0.10/lb that the copper price exceeds \$1.10/lb. Similarly, the water contract requires that an additional \$0.08/cubic metre be paid for each \$0.15/lb. that copper price exceeds \$1.50/lb. The minimum commitment under the contracts is estimated to be \$4,050 per annum for acid and \$1,060 per annum for water.

These copper price escalation clauses create embedded derivatives in the acid and water supply contracts. As of June 30, 2010, the fair value of the embedded derivative liabilities was \$34,631 based on the following significant assumptions:

- Copper price of \$2.97/lb. for 2010, \$2.99/lb. for 2011, \$2.90/lb. for 2012, \$2.50/lb. for 2013, and \$2.00/lb. thereafter
- Discount rate: 12.2%

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12. OTHER CURRENT LIABILITIES

	June 30, 2010	December 31, 2009
Taxes payable	730	13,669
Obligations under capital lease - current portion	4,603	5,457
Other	989	-
Total other current liabilities	6,322	19,126

The Company has capital lease agreements for mining equipment at the Robinson mine. As of June 30, 2010, the minimum lease payments remaining for these capital lease agreements were \$4,839, which includes \$236 of interest.

13. PROJECT DEBT FACILITY

In 2009, Quadra signed an agreement with a syndicate of lenders in which the lenders provided a \$37.5 million secured project debt facility to a wholly-owned Chilean subsidiary of the Company to fund the development of the Franke project. During the first quarter of 2010, the facility was increased by \$12.5 million, and this additional amount was drawn down. The facility now consists of an amortizing \$42.5 million project finance facility and a \$7.5 million working capital facility bearing interest at LIBOR plus 5.75% and 6.75%, respectively. The Company is required to make semi-annual principal payments equal to 67% of the Excess Cash Flow from the Franke mine. Excess Cash Flow is net of scheduled debt repayments and other adjustments as computed under the terms of the facility agreement. The first semi-annual principal payment was made in March 2010 in the amount of \$2,125. As the Company expects to repay the entire principal amount based on estimated Excess Cash Flow within the next twelve months, the facility has been classified as a current liability on the consolidated balance sheet at June 30, 2010.

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If there is no Excess Cash Flow, the project loan facility would be repayable with semi-annual principal repayments, with a final maturity date in March 2014. The working capital facility is repayable at the final maturity date in March 2014. The principal repayment schedule from July 1, 2010 is as follows:

2010	4,250
2011	10,625
2012	8,500
2013	11,688
2014	12,812
Total	47,875

The facilities are secured by the assets of the Franke mine and have a parent company guarantee until economic completion, and other terms and conditions customarily associated with project finance facilities including covenants with debt service, loan life and reserve life coverage ratios. The terms of the facility also require the Company to maintain certain balances in restricted accounts representing future interest and principal payments. At June 30, 2010, the restricted cash balance related to the project debt facility was \$5,803 (December 31, 2009 - \$4,816).

The Company is carrying this loan at amortized cost, comprised as follows:

	June 30, 2010	December 31, 2009
Project finance facility	40,375	30,000
Working capital facility	7,500	7,500
Debt issue costs	(4,252)	(3,816)
Cumulative amortization of debt issue costs	1,989	482
Project debt facility	45,612	34,166

14. DEFERRED REVENUE

Pursuant to an agreement with Gold Wheaton dated July 15, 2008, and assumed by the Company upon the merger with FNX, the Company is obligated to sell 50% of the gold, platinum and palladium metal contained in ore mined and shipped from the Morrison deposit and certain deposits at the Levack Complex and Podolsky mine, over the remaining life of these deposits. In 2008, FNX received an up-front payment of C\$400 million from Gold Wheaton as consideration for the sale of these gold equivalent ounces. In addition, the Company receives a cash payment equal to the lower of \$400 per gold equivalent ounce (subject to a 1.0% annual inflationary adjustment commencing July 1, 2011) and the prevailing market

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price per ounce of gold as the gold equivalent ounces are delivered to Gold Wheaton. The Company recorded deferred revenue of \$226,218 which represents the estimated fair value of the obligation to deliver the gold equivalent ounces at other than market rates, estimated as at May 20, 2010. This deferred revenue will be recognized as an adjustment to revenues as the related gold equivalent ounces are sold to Gold Wheaton. The adjustment is determined on the basis of the proportion of gold equivalent ounces sold to Gold Wheaton to the total gold equivalent ounces in the life of mine plans for the deposits subject to the agreement.

Fair value of deferred revenue at May 20, 2010	226,218
Recognized in period	(1,576)
Balance - June 30, 2010	224,642
Current portion at June 30, 2010	(15,735)
Long-term portion at June 30, 2010	208,907

15. SHARE CAPITAL

(a) Common Shares

The Company has authorized share capital of 1,000,000,000 common shares (“Shares”) with no par value.

	Number of Shares	Dollar Amount
Balance at January 1, 2010	99,508,530	715,261
Capital stock issued		
Shares issued in exchange for FNX shares, net of issue costs	88,880,670	952,071
Stock options exercised	458,734	3,506
Transfer from contributed surplus:		
Stock options exercised		1,000
Balance at June 30, 2010	188,847,934	1,671,838

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(b) Stock options and Restricted Stock Units

(i) Stock Options

The following table summarizes information relating to stock options outstanding and exercisable at June 30, 2010 (in Canadian dollars):

Exercise price per share	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price C\$	Number exercisable	Weighted-average exercise price C\$
\$3.45 - \$7.76	2,972,774	3.57	6.49	1,675,366	6.67
\$8.02 - \$11.91	1,145,827	1.75	10.26	1,052,494	10.31
\$12.13 - \$15.35	2,202,395	2.27	13.30	1,815,143	13.23
\$15.50 - \$20.86	1,071,146	2.38	18.56	969,872	18.74
\$20.89 - \$24.60	1,234,900	2.73	24.46	1,234,900	24.46
\$24.79 - \$43.14	891,285	2.67	31.89	660,271	31.77
	9,518,327	2.72	14.59	7,408,046	15.58

The following tables summarize the stock option activity for the six months ended June 30, 2010:

	Options	Weighted-average exercise price (C\$)
Outstanding at January 1, 2010	7,037,222	13.70
Granted	125,000	16.66
Issued for FNX acquisition	2,913,339	15.63
Forfeited	(98,500)	14.77
Exercised	(458,734)	7.93
Outstanding at June 30, 2010	9,518,327	14.59

During the six months ended June 30, 2010, 125,000 stock options were granted to employees (June 30, 2009 – 1,715,500). The weighted-average fair value of these stock options is estimated to be \$5.80 each (June 30, 2009 - \$2.31). The total fair value of the stock options granted is amortized over the two year vesting period. The stock-based compensation expense for the three and six months ended June 30, 2010

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was \$1,769 and \$3,332 (June 30, 2009 - \$2,373 and \$4,144), \$45 and \$157 of which was capitalized to inventory and cost of sales (June 30, 2009 - \$298 and \$549).

The fair value of each option is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2010</u>	<u>2009</u>
Expected Volatility	57%	58%
Risk-free interest rate	2%	2%
Expected Life	2.8 years	3.0 years
Dividend Yield	Nil	Nil

Option pricing models require the input of highly subjective assumptions including the expected price volatility and expected life of the options. Changes in these assumptions can materially affect the estimated fair value of options granted.

(ii) Restricted Stock Units ("RSU")

As of June 30, 2010, the Company had 64,306 RSUs outstanding with a maturity date of May 2012.

For accounting purposes, RSUs are valued at their fair market value, and accrued over the vesting period. For the six months ended June 30, 2010, the RSU expense was \$570 (June 30, 2009 - \$nil), \$352 of which was capitalized to inventory and cost of sales.

(c) Warrants

The following warrants were outstanding and exercisable at June 30, 2010:

	Common shares to be issued on exercise	Exercise price C\$	Expiry date
Lender warrants	1,297,767	9.24	March 1, 2012
FNX converted warrants	6,503,249	13.00	September 09, 2012
Exercisable at June 30, 2010	7,801,016	12.37	

In May 2010, 5,980,000 warrants with an exercise price of C\$20.00 expired unexercised.

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16. SEGMENTED INFORMATION

The Company's reportable operating segments are individual mine operations and development projects, being Robinson, Carlota, Franke, Levack Complex, Podolsky, other mineral properties, DMC and Corporate. The corporate segment is responsible for the evaluation and acquisition of new mineral properties and corporate administration.

(a) Revenues

For the three month period ended June 30, 2010:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Copper revenues	82,888	24,053	26,153	2,013	11,024	-	146,131
Nickel revenues	-	-	-	1,488	1,923	-	3,411
Other by-product revenues	23,535	-	-	1,782	3,146	-	28,463
Contract mining revenues	-	-	-	-	-	4,610	4,610
Price adjustments	(11,725)	-	(753)	(146)	(847)	-	(13,471)
	94,698	24,053	25,400	5,137	15,246	4,610	169,144

For the three month period ended June 30, 2009:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Copper revenues	48,739	15,812	-	-	-	-	64,551
Other by-product revenues	18,726	-	-	-	-	-	18,726
Price adjustments	16,776	-	-	-	-	-	16,776
	84,241	15,812	-	-	-	-	100,053

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For the six month period ended June 30, 2010:

	Levack						Total
	Robinson	Carlota	Franke	Complex	Podolsky	DMC	Total
Copper revenues	175,150	54,894	59,578	2,013	11,024	-	302,659
Nickel revenues	-	-	-	1,488	1,923	-	3,411
Other by-product revenues	51,553	-	-	1,782	3,146	-	56,481
Contract mining revenues	-	-	-	-	-	4,610	4,610
Price adjustments	1,103	-	(635)	(146)	(847)	-	(525)
	227,806	54,894	58,943	5,137	15,246	4,610	366,636

For the six month period ended June 30, 2009:

	Levack						Total
	Robinson	Carlota	Franke	Complex	Podolsky	DMC	Total
Copper revenues	100,482	24,852	-	-	-	-	125,334
Other by-product revenues	46,722	-	-	-	-	-	46,722
Price adjustments	39,728	-	-	-	-	-	39,728
	186,932	24,852	-	-	-	-	211,784

Revenues at Robinson, Levack Complex and Podolsky are from concentrate and ore sales and are recorded provisionally at the time of sale. Subsequent variations in price are recognized as price adjustments as they occur until the price is finalized. At June 30, 2010, 18.6 million pounds of copper have been provisionally valued at an average price of \$2.96/lb. (December 31, 2009 – 20.1 million pounds at \$3.34/lb.). The final pricing for these provisionally priced sales is expected to occur between July and August 2010 for Robinson and between July and November 2010 for the Levack Complex and Podolsky.

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(b) Operating income

For the three month period ended June 30, 2010:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Revenues	94,698	24,053	25,400	5,137	15,246	4,610	169,144
Cost of sales	59,904	13,358	20,311	5,918	10,132	3,962	113,585
Amortization, depletion, depreciation and accretion	6,309	2,769	4,727	1,015	2,779	577	18,176
Royalties and mineral taxes	4,583	1,212	-	-	-	-	5,795
Operating income	23,902	6,714	362	(1,796)	2,335	71	31,588

For the three month period ended June 30, 2009:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Revenues	84,241	15,812	-	-	-	-	100,053
Cost of sales	49,133	14,157	-	-	-	-	63,290
Amortization, depletion and depreciation	6,546	1,409	-	-	-	-	7,955
Royalties and mineral taxes	3,805	877	-	-	-	-	4,682
Operating income	24,757	(631)	-	-	-	-	24,126

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For the six month period ended June 30, 2010:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Revenues	227,806	54,894	58,943	5,137	15,246	4,610	366,636
Cost of sales	119,237	28,548	40,795	5,918	10,132	3,962	208,592
Amortization, depletion, depreciation and accretion	12,401	5,718	8,329	1,015	2,779	577	30,819
Royalties and mineral taxes	11,097	2,766	-	-	-	-	13,863
Operating income	85,071	17,862	9,819	(1,796)	2,335	71	113,362

For the six month period ended June 30, 2009:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Total
Revenues	186,932	24,852	-	-	-	-	211,784
Cost of sales	102,201	23,224	-	-	-	-	125,425
Reversal of inventory adjustment	-	(5,305)	-	-	-	-	(5,305)
Amortization, depletion, depreciation and accretion	11,248	2,036	-	-	-	-	13,284
Royalties and mineral taxes	6,723	1,287	-	-	-	-	8,010
Operating income	66,760	3,610	-	-	-	-	70,370

Treatment and refining costs for the current period have been classified as cost of sales and were previously classified in revenue. Comparative figures have been reclassified to conform to the presentation adopted in the current period.

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(c) Capital expenditures and total assets

For the six month period ended June 30, 2010:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Other mineral properties	Corporate	Total
Capital expenditures	13,157	11,906	8,517	1,558	1,190	-	36,177	812	73,317
Total assets as of									
June 30, 2010	375,724	395,787	297,764	168,452	213,404	35,144	1,123,334	190,506	2,800,115

For the six month period ended June 30, 2009:

	Robinson	Carlota	Franke	Levack Complex	Podolsky	DMC	Other mineral properties	Corporate	Total
Capital expenditure	16,675	10,542	17,053	-	-	-	5,756	8	50,034
Total assets as of									
June 30, 2009	321,932	345,050	223,151	-	-	-	140,945	73,325	1,104,403

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17. NET INTEREST AND OTHER EXPENSE (INCOME)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	months ended June 30, 2009
Interest income	(161)	(169)	(195)	(493)
Interest expense	940	244	1,905	543
Unrealized loss on held for trading marketable securities (Note 7)	5,961	-	341	-
Loss on sale of marketable securities	-	7,234	-	7,234
Unrealized gain on Gold Wheaton note receivable (Note 9)	(8,838)	-	(8,838)	-
Other	7	1,323	396	1,286
	(2,091)	8,632	(6,391)	8,570

18. RELATED PARTY TRANSACTIONS

One of the directors of the Company is a partner of an affiliate of Blake, Cassels & Graydon LLP. During the six months ended June 30, 2010, the Company incurred legal fees of \$827 with that entity (six months ended June 30, 2009: \$295), all of which were at normal business terms.

As a result of the merger with FNX, Gold Wheaton became a significantly influenced investee and thus became a related party. All transactions conducted with Gold Wheaton are at exchange amount. Sales to Gold Wheaton for the period ended June 30, 2010 totaled \$2,027, and accounts receivable at June 30, 2010 from Gold Wheaton was \$12,584.

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19. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital consisted of the following:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Decrease in receivables	27,376	4,468	12,045	830
Increase in inventory	(13,292)	(9,721)	(25,365)	(14,874)
(Increase) decrease in restricted cash	(3,849)	342	(1,887)	342
(Increase) decrease in other current assets	(1,786)	1,193	(3,258)	1,844
Decrease in accounts payable and accrued liabilities	(7,354)	(7,314)	(1,679)	(30,833)
Decrease in other current liabilities	(18,356)	(12,806)	(13,271)	(8,342)
Net changes in non-cash working capital	(17,261)	(23,838)	(33,415)	(51,033)
Other supplemental information:				
Interest paid	1,051	331	1,772	820
Income tax paid	18,223	9,627	23,323	9,659

20. COMMITMENTS

During the six months ended June 30, 2010, the Carlota Mine signed two new operating lease agreements to lease mine equipment for 4 and 5 years with total minimum lease payments of \$3,091 per annum.

As a result of the merger with FNX, the Company acquired a Toronto office lease which expires in 2015, with total minimum lease payments of \$1,315 per annum.

At June 30, 2010, the Company had \$600 remaining to be spent on exploration activities at the Company's exploration properties in Sudbury, Ontario in connection with the issuance of flow-through shares by FNX prior to the merger.

As of June 30, 2010 the Company has made initial non-refundable deposits of \$4.1 million for mobile equipment for the Sierra Gorda project, and the total cost of this equipment would be approximately \$52 million.

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21. CONTINGENCIES

(a) The Company was originally served with four lawsuits that were filed in Chilean Courts against the Company's wholly-owned Chilean subsidiary, Minera Quadra Chile Limitada ("MQCL"). These lawsuits seek to invalidate three of the option agreements under which the Company acquired mining tenements that comprise of a significant part of the Sierra Gorda project. Based on advice of Chilean counsel, Quadra believes that the option agreements are valid and that the lawsuits are without merit. The four original lawsuits are:

- 1) The first case was served on August 13, 2007. The plaintiff of this case is Mrs. Maral Kazazian. On May 4, 2010, the court ruled in favor of MQCL and awarded the Company costs. The plaintiffs have lodged two remedies against this decision at the same time: (i) a restricted appeal to the Supreme Court and (ii) an appeal. The Company has been advised by Chilean counsel that both remedies are without merit.
- 2) The second case was served on April 2, 2008. On June 4, 2010, the Court of Appeals accepted the Company's position that the courts were not the appropriate jurisdiction for resolving the dispute and declared that the complete procedure is null and void and must be resolved by an arbitrator. The plaintiffs have lodged a restricted appeal to the Supreme Court against this decision. The Company has been advised by Chilean counsel that this appeal is without merit.
- 3) The third case was served on June 20, 2008. MQCL settled this case in the second quarter of 2009 for less than \$0.5 million.
- 4) The fourth case was served on July 10, 2008. Plaintiffs of this case are Mrs Maral Kazazian, Mrs. Zaroug Kazazian and Mr. Pakrad Kazazian. The Court referred this matter to arbitration and the Company applied for a declaration from the arbitrator that the option agreement is perfectly valid. On April 30, 2010 the arbitrator found that MQCL had fully complied with all its contractual obligations and that the option agreement at issue in this case is valid. The decision by the arbitrator cannot be appealed but the plaintiffs have filed an objection to the arbitration competence through a restricted appeal to the Supreme Court. The Company has been advised by Chilean counsel that this objection is without merit.
- 5) On May 11, 2010, Zaroug Kazazian (sister of the plaintiff in the first case) launched a new lawsuit which is very similar to the first case. Additionally the plaintiff asked for an injunction over the tenements. The court denied this request. The plaintiff has appealed the court's decision. The Company has been advised by Chilean counsel that the case itself is poorly worded and without merit and further advised that the appeal is without merit.

The plaintiffs in the lawsuits are or were shareholders in the "sociedades legales mineras" ("SLM") or legal mining companies that owned certain of the mining tenements that were optioned to the Company in 2004. The Company believes it fully complied with the terms of all option agreements and the plaintiffs accepted all option payments until April 2008. In the first two lawsuits and the most recent lawsuit, the plaintiffs are requesting that the option agreements be declared null and void. The plaintiffs

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in these cases are claiming that the SLMs were not authorized to sell the mining tenements under the option agreements.

Although the Company believes, based on advice from Chilean counsel, that the remaining disputed option agreements are valid and that the legal claims are without merit, the outcome is uncertain. These lawsuits are subject to the procedural and substantive laws of Chile and the allegations are based on the actions of the SLM management, in respect of which MQCL has no direct knowledge. MQCL is vigorously defending these lawsuits; however, there is no assurance that it will be successful.

In the unlikely event that MQCL loses any of the lawsuits, based on advice from Chilean counsel the precise legal situation is unclear in that:

- The SLMs were dissolved automatically under Chilean law when the mining tenements that are the subject of the lawsuits were sold to the Company. These SLMs would somehow have to be recreated. Based on advice from Chilean counsel, there is no Chilean precedent for this.
- Before the title to the mining tenements that are the subject of the lawsuits are transferred back to the SLMs, Quadra FNX should be entitled to be reimbursed all amounts paid to the plaintiffs and other shareholders under the option agreements.
- The mining tenements that are the subject of the lawsuits comprise an important part of the Company's current plan for the development of the Sierra Gorda project. Given Quadra FNX's other landholdings in the area, the Company believes that it would be very difficult for the plaintiffs in the lawsuits to be able to economically exploit the mining tenements that are the subject of the lawsuits.

MQCL is aware that the same plaintiffs are attempting to initiate additional lawsuits seeking to declare null and void the option agreements relating to the mineral properties that are already the subject of the first case. However, none of the Company or any of its subsidiaries has of the date hereof been served with any additional legal actions.

(b) The payable metals the processor is required to pay for ore shipped and sold by FNX are determined based on the metal which the processor is able to recover from the various ore deposits. This will vary depending on the particular metallurgical composition of each ore deposit as determined by metallurgical testing of the various ore deposits. There are several different final payable metals terms with Vale Inco for the various ore deposits at the Levack Complex to reflect the differences in the metallurgical composition of the ore deposits.

Interim processing costs terms and interim payable metals terms, based on preliminary metallurgical testing, have been established by Vale Inco for the Levack and Podolsky mines. Metallurgical testing

Quadra FNX Mining Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US Dollars in Thousands)
Six months ended June 30, 2010
(Unaudited)

has not proceeded as anticipated. Once final payable metals and processing costs terms are determined, it is expected that they may be applied to ore shipped from Levack in prior periods. The Company cannot, at this time, determine the amount, if any, of such adjustment. Depending on the outcome of the final payable metals and costs terms there may be a material increase or decrease in payable metals and/or processing costs to be recorded.

On April 16, 2009, Vale announced that its processing facilities would suspend operations beyond the normal May maintenance period until July 27, 2009 and, therefore, would not be accepting the Company's ore for processing after May 2009. In addition, much of Vale's labour force in Sudbury is unionized and their collective agreement ended on May 31, 2009. The union's strike action against Vale commenced effective July 13, 2009, and ended July 8, 2010 with ratification of a new collective agreement by members.

- (c) In the normal course of business DMC enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.
- (d) The Company is subject to other lawsuits from time to time which are not disclosed on the grounds that they are not believed to be material.